

George Warren Brown School of Social Work

Center for Social Development

CJD
12/22/97

December 15, 1997

Ms. Cynthia L. Johnson
Director, Cash Management Policy and Planning Division
Financial Management Service
U.S. Department of the Treasury
Room 420
401 14th Street, S.W.
Washington, D.C. 20227

Dear Ms. Johnson:

The Center for Social Development (CSD) is a research and policy center at Washington University in St. Louis. We welcome this opportunity to comment on the proposed rules for "EFT '99."

EFT '99 is an important undertaking, with enormous implications for low-income and low-wealth families and communities. I know that much of the response to the proposed EFT '99 rules has been skeptical. Advocates for the poor are concerned that the transition to electronic funds transfers will disadvantage low income households, and I appreciate these concerns. However, my view is that *EFT '99 holds the potential for enormous benefits for low-income and low-wealth families and communities.*

This potential may be realized if EFT '99 is thought of as a *means for delivery of financial services in addition to deposits and withdrawals.* That is, EFT '99 can be an important step toward full accessibility and democratization of financial services.

In particular, CSD has been studying and promoting *savings and asset accumulation as a key development strategy for impoverished households and communities.* The concept of *individual development accounts (IDAs)*, matched savings for the poor, is a major focus of our work at CSD and I would like to discuss EFT '99 from this perspective.

In these comments, I am entirely supportive of written comments that you have received from Bob Friedman and others at the Corporation for Enterprise Development, as well as a forthcoming Brookings Institution paper by Mike Stegman on EFT '99 and IDAs.

EFT
#033

Turning to specific suggestions, I recommend the following rule changes:

1. Add explicit language for the goal of facilitating savings as part of the effort to integrate the non-banked into mainstream financial services.
2. A separate, low-cost, interest-bearing savings account should be available as an option for deposit of EFT funds.
3. Participants should be able to designate that a certain proportion of the transfer would go into the savings account.
4. Participants should be able to designate that remaining balances at the end of the month be swept into the savings account.
5. Saving by the poor should be encouraged by IDAs, and financial institutions should be prepared to receive matching IDA funds from public and private sources.
6. Facilitation of savings should be a specific criterion for the selection of the financial agent who is to implement and administer EFT '99.

Finally, a substantial portion -- at least half -- of the \$100 million per year that EFT '99 is projected to save the federal government should be redirected toward asset building for the poor in the form of (a) elimination of savings account fees, and (b) matching funds for IDAs.

Thank you again for inviting comments.

I hope these suggestions are helpful.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Sherraden". The signature is fluid and cursive, with a long horizontal stroke at the end.

Michael Sherraden
Director, Center for Social Development